



**LOTTERY
TENNESSEE®**

May 7, 2009

Rebecca Paul Hargrove
President and CEO

Tennessee Education
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Tre Hargett, Secretary of State
David H. Lillard, Jr., Treasurer
Justin P. Wilson, Comptroller
Commissioner Dave Goetz, Finance & Administration

Re: Net Lottery Proceeds for Fiscal Year 2009

Dear State Funding Board Members:

The Tennessee Education Lottery Corporation ("TEL") is hereby providing notification of its determination that an amount that maximizes net lottery proceeds to the State of Tennessee Lottery for Education Account is less than thirty-five percent (35%) of lottery proceeds for fiscal year 2009. The reasons for this determination are as follows:

- (1) The TEL offers two types of lottery products—instant tickets and on-line games. Instant tickets have been the more popular and have thus far generated 74.6% of the TEL's revenues during the 2009 fiscal year. The prize payout percentage for instant tickets, however, is substantially higher than for on-line games. As a result the overall prize payout for all games is higher, thereby reducing the projected percentage of net proceeds to total sales to 27% for fiscal year 2009.
- (2) The TEL must continue to be in a competitive position with its border states that operate lotteries. Attached is information that indicates that the TEL currently has the lowest prize payout, as compared to contiguous states, as well as one of the lowest payout of any of the 16 better performing lotteries.
- (3) As the TEL continues to mature the average price point of instant tickets sold will continue to increase. Higher price point tickets carry higher prize pay-out percentages adding to the propensity of prize payouts to increase.
- (4) The most obvious alternative for increasing the percentage of return is to reduce the current prize payout percentage for instant tickets. All empirical evidence indicates that a significant reduction in payout will result in a reduction in sales and a corresponding reduction in net proceeds. To the contrary, the experience of other states indicates that

increasing the percentage of the prize payout will result in increased sales and more importantly, increased net proceeds.

- (5) The TEL's statutory mission is to maximize the dollars available for the education programs funded by the corporation. The Tennessee Education Lottery Implementation Law ("Act") at TCA §4-51-111(a)(3) provides the corporation with the ability to make a determination that returning a specific percentage of sales as net proceeds (35%) would not result in the maximum amount of net proceeds being achieved.
- (6) In accordance with Article XI, Section 5 of the Constitution of the State of Tennessee, the Tennessee Lottery is defined as a state lottery of the type in operation in Georgia, Kentucky and Virginia. Over the last four fiscal years these lotteries have returned average net proceeds as follows: Georgia 27.7%; Kentucky 25.3%; and Virginia 32.4%.

Attached are detailed comparisons and analysis of prize payout information for the sixteen (16) top performing states in per capita instant ticket sales. If after reviewing this information you have any questions please do not hesitate to contact us for further discussion.

We continue to take very seriously our statutory charge to increase the net proceeds of the Tennessee Education Lottery Corporation. We believe this determination is consistent with that charge.

Sincerely,



Rebecca Paul Hargrove, President & CEO
Tennessee Education Lottery Corporation

RPH/cj

Enclosures

cc: Governor Phil Bredesen
Jim Hill, Chairman Tennessee Education Lottery Corporation

FY09 YTD Prize Payout Percentages (\$1, \$2, \$3, \$5, \$7) (TOP 16)

P/C Rank	Lottery	Payout includes free tickets?	\$1 Prize Payout	\$2 Prize Payout	\$3 Prize Payout	\$5 Prize Payout	\$7 Prize Payout
1	Massachusetts	No	69.50%	72.00%		75.50%	
2	Georgia	Yes	62.00%	68.50%	68.50%	70.00%	
3	New York	No	65.00%	65.00%		65.00%	
4	Connecticut	No	63.86%	64.43%	68.18%	67.20%	67.86%
5	New Jersey	No	55.00%	65.00%	65.00%	65.00%	
6	Pennsylvania	Yes	61.00%	66.00%	68.00%	71.00%	
7	South Carolina	No	59.18%	62.79%	65.77%	69.36%	
8	New Hampshire	No	62.75%	63.00%	63.25%	65.00%	
9	Tennessee	Yes	56.00%	61.00%	64.00%	64.00%	
10	Maine	No	60.33%	65.63%	66.46%	66.73%	
11	Vermont	No	64.00%	64.00%	68.00%	69.00%	
12	Ohio	No	61.00%	65.00%	65.00%	69.00%	
13	Kentucky	Yes	59.25%	60.04%		68.05%	
14	Texas	Yes	60.20%	64.84%	65.74%	68.01%	68.02%
15	Florida	Yes	59.64%	66.56%	69.58%	68.85%	
16	Missouri	No	62.50%	66.65%	66.88%	68.73%	
AVERAGE TOP 16			61.33%	65.03%	66.49%	68.15%	67.94%

FY09 YTD Prize Payout Percentages (\$10, \$15, \$20, \$25, \$30, \$50) (TOP 16)

P/C Rank	Lottery	Payout includes free tickets?	\$10 Prize Payout	\$15 Prize Payout	\$20 Prize Payout	\$25 Prize Payout	\$30 Prize Payout	\$50 Prize Payout
1	Massachusetts	No	80.00%		80.40%			
2	Georgia	Yes	74.50%		77.75%			
3	New York	No	75.00%		75.00%		75.00%	
4	Connecticut	No	70.86%		71.71%		72.51%	
5	New Jersey	No	65.00%		65.00%			
6	Pennsylvania	Yes	73.00%		75.00%	77.00%		
7	South Carolina	No	76.95%					
8	New Hampshire	No	66.50%		67.00%		69.50%	
9	Tennessee	Yes	66.00%		69.50%			
10	Maine	No	71.50%		73.75%			
11	Vermont	No	69.00%		74.00%			
12	Ohio	No	73.00%		75.00%			
13	Kentucky	Yes	70.24%		69.01%			
14	Texas	Yes	69.99%		71.77%	72.73%	72.47%	72.30%
15	Florida	Yes	73.71%		75.13%			
16	Missouri	No	75.27%		76.19%			
AVERAGE TOP 16			71.91%		75.08%	74.87%	72.37%	72.30%

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FY09 YTD Prize Payout Percentages (\$1, \$2, \$3, \$5, \$7) (STATES 17-41)

P/C Rank	Lottery	Payout includes free tickets?	\$1 Prize Payout	\$2 Prize Payout	\$3 Prize Payout	\$5 Prize Payout	\$7 Prize Payout
17	Virginia	No	61.00%	64.00%	65.00%	68.00%	
18	Illinois	Yes	57.69%	62.97%	64.39%	65.33%	
19	Maryland	No	59.00%	64.00%	67.00%	72.00%	
20	North Carolina	Yes	54.00%	61.00%	60.00%	62.00%	
21	Indiana	No	59.80%	64.70%		69.70%	
22	Rhode Island	No	61.29%	64.81%	67.19%	68.70%	
23	Michigan	No	60.00%	64.00%		67.00%	
24	D.C.	No	61.01%	63.93%	64.64%	69.62%	
25	Colorado	No	60.50%	63.50%	64.50%	70.20%	
26	Minnesota	No	64.00%	66.00%	66.00%	68.00%	
27	West Virginia	No	66.01%	68.79%		72.26%	
28	Izaho	No	61.46%	63.55%	68.61%	70.62%	
29	Washington	No	60.80%	66.30%	65.00%	68.80%	
30	Wisconsin	No	59.00%	62.00%	53.00%	64.50%	
31	California	Yes	52.91%	56.40%	59.22%	63.89%	
32	Iowa	No	57.00%	60.00%	63.00%	64.00%	
33	Delaware	No	57.00%	61.00%	62.00%	65.00%	
34	New Mexico	No	53.00%	56.00%	58.00%	62.00%	
35	Arizona	No	57.50%	60.00%	62.00%	64.00%	
36	Nebraska	No	58.00%	65.00%	65.00%	68.00%	
37	South Dakota	No	61.00%	65.00%	66.00%	67.00%	
38	Louisiana	No	54.38%	58.89%	59.00%	63.53%	
39	Oregon	No	65.96%	66.12%	67.50%	70.01%	
40	Oklahoma	No	55.00%	59.00%		63.50%	
41	Montana	Yes	55.00%	60.50%	64.50%	67.00%	
AVERAGE FY09			58.89%	67.70%	63.41%	67.01%	
TOTAL AVERAGE			59.82%	63.61%	64.59%	67.45%	67.94%

NM percentages from La Fleur's

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FY09 YTD Prize Payout Percentages (\$10, \$15, \$20, \$25, \$30, \$50)

(STATES 17-41)

P/C Rank	Lottery	Payout includes free tickets?	\$10 Prize Payout	\$15 Prize Payout	\$20 Prize Payout	\$25 Prize Payout	\$30 Prize Payout	\$50 Prize Payout
17	Virginia	No	70.00%		75.00%			
18	Illinois	Yes	74.00%		77.05%			
19	Maryland	No	75.00%		78.00%			
20	North Carolina	Yes	68.00%					
21	Indiana	No	71.60%		73.50%		75.50%	
22	Rhode Island	No	69.87%		73.00%			
23	Michigan	No	70.00%		75.00%			
24	D.C.	No	72.02%		72.99%			
25	Colorado	No	71.50%		78.50%			
26	Minnesota	No	70.00%		72.00%			
27	West Virginia	No	82.28%					
28	Idaho	No	72.68%	74.93%				
29	Washington	No	72.50%		74.99%			
30	Wisconsin	No	70.00%	74.00%				
31	California	Yes						
32	Iowa	No	74.00%		74.00%			
33	Delaware	No	69.00%		72.00%			
34	New Mexico	No	70.00%		75.00%			
35	Arizona	No	67.00%		70.00%			
36	Nebraska	No	72.00%	72.00%				
37	South Dakota	No	70.00%		70.00%			
38	Louisiana	No	66.38%					
39	Oregon	No	71.61%	72.19%	72.00%			
40	Oklahoma	No						
41	Montana	Yes	71.50%					
AVERAGE (17-41)			71.35%	73.28%	73.93%	74.87%	75.50%	
TOTAL AVERAGE			71.58%	73.28%	73.92%	74.87%	75.00%	75.30%

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